

## Message Text

CONFIDENTIAL

PAGE 01 TAIPEI 05686 030104Z

60

ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 USIE-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 PRS-01 SP-02 OMB-01 INRE-00

SSO-00 NSCE-00 EUR-12 /089 W  
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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC IMMEDIATE 6849

C O N F I D E N T I A L TAIPEI 5686

EO 11652 GDS

TAGS ETRD TW

SUBJECT: SHOES: CONSULTATION ON POSSIBLE RESULTS OF  
CURRENT INTERNATIONAL TRADE COMMISSION  
INVESTIGATION

REF: (A) STATE 204326 (B) TAIPEI A-205 OF NOV 5, 1974

1. BACKGROUND INFORMATION ON TAIWAN'S SHOE INDUSTRY  
AS OUTLINED IN REPAIR STILL REMAINS VALID. AT THE  
END OF 1974, THE FOOTWEAR INDUSTRY CONSISTED OF 250  
FACTORIES WITH TOTAL EMPLOYMENT OF AROUND 70,000. THE  
LARGER PLANTS EMPLOYED 1,500 WORKERS EACH WITH A  
MONTHLY CAPACITY OF 450,000 TO 500,000 PAIRS. MAJORITY  
OF THE FACTORIES, HOWEVER, WERE SMALL FACTORIES WITH  
AN AVERAGE OF 120 WORKER. VINYL SANDALS AND SLIPPERS,  
BOTH LOW-PROFIT PRODUCTS, ACCOUNTED FOR ABOUT HALF OF  
THE TOTAL EXPORTS IN 1974. OTHER MAJOR ITEMS, IN ORDER  
OF THEIR EXPORT VALUE, WERE LOAFERS, WORKSHOES, UPPERS,  
ROLLER SKATES, NURSE SHOES, HIGH-HEEL PVC SHOES AND  
BEACH CLOGS.

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PAGE 02 TAIPEI 05686 030104Z

2. DUE TO WORLDWIDE ECONOMIC SLOWDOWN, COUPLED WITH THE

SHARP INCREASES OF COST OF LABOR AND RAW MATERIALS, PRODUCTION FELL BY ABOUT 18 PERCENT IN 1974 AND THIS WAS REFLECTED IN EXPORT STATISTICS. TOTAL EXPORTS, IN TERMS OF QUANTITY, DROPPED BY ALMOST 10 PERCENT. THE US PURCHASED 67 PERCENT OF TAIWAN'S TOTAL EXPORTS LAST YEAR, COMPARED WITH 76 PERCENT IN 1973. EXPORTS TO CANADA DROPPED SHARPLY AFTER THE PREFERENTIAL TARIFFS IN FAVOR OF SOUTH KOREA BY THE CANADIAN GOVERNMENT. THE NEW CANADIAN ACT IMPOSES A 25 PERCENT IMPORT TARIFF ON TAIWAN-MADE PLASTIC SHOES, COMPARED WITH A 16.6 PERCENT FOR KOREAN PRODUCTS.

3. OTHER MAJOR BUYERS, BASED ON 1974 FIGURES, WERE W. EUROPE (10.9 PERCENT), AUSTRALIA (4.6 PERCENT), MIDDLE EAST (4 PERCENT) AND JAPAN (3.7 PERCENT). IT SHOULD BE NOTED THAT TAIWAN MANUFACTURERS WERE SUCCESSFUL IN INCREASING THEIR MARKET SHARE IN JAPAN, W. EUROPE, AUSTRALIA AND MIDDLE EAST COUNTRIES LAST YEAR.

4. DOMESTIC PRODUCTION TREND IS TO INCREASE QUALITY OF THEIR PRODUCTS. WITH INCREASING COMPETITION FROM LOWER-COST PRODUCING COUNTRIES, LOCAL MANUFACTURERS ARE ENDEAVORING TO REMAIN COMPETITIVE WITH BETTER DESIGNED, HIGHER QUALITY FOOTWEAR. IN FACT, THE TAIWAN FOOTWEAR EXPORTERS ASSOCIATION HAS OFFICIALLY DECLARED 1975 THE "YEAR OF QUALITY CONTROL". SEMINARS HAVE BEEN HELD TO HELP LOCAL MANUFACTURERS AND THERE IS A PLAN TO SETUP A JOINT QUALITY INSPECTION CENTER FOR FOOTWEAR PRODUCTS IN THE NEAR FUTURE.

5. BECAUSE OF PRODUCTION CUTBACKS LAST YEAR AND SLUGGISH EXPORT ORDERS DURING THE FIRST HALF OF 1975, THERE ARE NO IMMEDIATE PLANS TO EXPAND PRODUCTION CAPACITY. HOWEVER, AS WORLD MARKETS IMPROVE, IT IS EXPECTED THAT LARGER MANUFACTURERS WILL INVEST IN NEW MACHINERY AND EQUIPMENT IN ORDER TO INCREASE PRODUCTIVITY AND TO MOVE TOWARD HIGH QUALITY, BETTER DESIGNED PRODUCTS.

6. PRINCIPAL CONCERN OF GROC WILL BE IMPACT ON FUTURE OF PLASTIC FOOTWEAR INDUSTRY IN ROC IN EVENT ITC FINDING CONFIDENTIAL

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PAGE 03 TAIPEI 05686 030104Z

IS AFFIRMATIVE AND USG ACTS TO RESTRICT IMPORTS BY ESTABLISHING QUOTAS. IF QUOTAS ARE BASED ON HISTORICAL MARKET SHARE PLUS GROWTH FACTOR ROC, GIVEN ITS PRESENT SHARE OF MARKET, WOULD NOT FAIRLY IF ALL CURRENT MAJOR PRODUCING COUNTRIES WERE INCLUDED IN QUOTA SYSTEM AND PROVISIONS WERE MADE TO LIMIT IMPORTS FROM PRODUCING COUNTRIES WHICH ARE NOT YET BUT COULD BECOME MAJOR PRODUCERS OF PLASTIC FOOTWEAR. IF, HOWEVER, IMPORTS

WERE RESTRICTED ONLY FROM ROC AND KOREA IN ASIA  
GROC WOULD BE CONCERNED THAT SMALL BUT GROWING INDUSTRIES  
IN MALAYSIA, INDONESIA, ETC. COULD EXPAND AT  
EXPENSE OF ROC INDUSTRY.

7. GROC WILL NOT BE OVRJOYED AT PROSPECT OF CONSULTATIONS  
BUT IT UNDOUBTEDLY WILL ACCEDE TO A REQUEST FROM  
USG. EMBASSY KNOWS OF NO PITFALLS THAT SHOUDL BE  
AVOIDED IN MAKING A REQUEST.  
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